

SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Roger Lackey Analyst: Roger Lackey Bill Number: SB 17XX

Related Bills: See Prior Analysis Telephone: 845-3627 Amended Date: 08-20-2001

Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Solar Energy Credit

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended _____.

X AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

X AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as amended June 12, 2001.

FURTHER AMENDMENTS NECESSARY.

X DEPARTMENT POSITION CHANGED TO Support.

REMAINDER OF PREVIOUS ANALYSIS OF BILL AS AMENDED

X June 12, 2001, STILL APPLIES.

OTHER - See comments below.

SUMMARY

This bill would allow a credit for the purchase and installation of a solar energy system.

SUMMARY OF AMENDMENTS

The August 20, 2001, amendments:

- Revised the eligible cost applicable to the credit from 50% to 15%, and further reduced the eligible cost applicable to the credit to 7.5% for taxable years beginning on or after January 1, 2004, and before January 1, 2006.
- Deleted \$2.25 from the "applicable dollar amount." For taxable years beginning on or after January 1, 2001, and before January 1, 2006, the "applicable dollar amount" would be \$4.50.
- Eliminated the solar energy system minimum generating capacity requirement of 10 kilowatts.
- Removed the language prohibiting a taxpayer who receives a government grant from claiming the credit and replaced it with a requirement that the cost of the solar energy system be reduced by the grant.
- Added new language requiring that the basis of the solar energy system be reduced by the amount of the credit allowed.

As a result of the amendments, a revised revenue estimate is included below. In addition, new implementation concerns have been identified and are included below along with the implementation considerations discussed in the department's prior analysis. The remainder of the department's analysis of the bill as introduced June 12, 2001, still applies.

Board Position:

<u>X</u> S	_____ NA	_____ NP
_____ SA	_____ O	_____ NAR
_____ N	_____ OUA	_____ PENDING

Legislative Director

Date

Brian Putler

09/07/01

POSITION

Support.

On June 27, 2001, the Franchise Tax Board voted 2-0 to take a support position on this bill as amended June 12, 2001, with Annette Porini, on behalf of Member B. Timothy Gage, abstaining.

IMPLEMENTATION CONCERNS

This bill would require the department to make a determination regarding the rated wattage of the solar energy system. However, the need for the department to make a determination regarding the amount of the credit is not apparent since the taxpayer would be able to calculate the credit amount, and the bill defines the applicable dollar amount. According to the author's staff, the intent of the bill is not to require the department to determine rated wattage of a system, and since the elements of the credit are clearly defined, the language regarding the department determining the rated wattage of a system should be deleted. Amendments 1-4 would make the appropriate change.

The terms "photovoltaic" and "wind-driven" are not defined. According to the author's staff, the author will be amending the bill to define these terms.

A large number of taxpayers lease equipment or other property rather than to purchase them. As drafted, the bill would not apply to a taxpayer that leases a "solar energy system" for use in this state.

New Implementation Considerations

The bill requires the cost of the device to be reduced by the amount of any governmental financial incentive received. It may be difficult to describe the nature of the grant clearly or to verify whether a taxpayer has received such an incentive, especially in situations where the grant or another incentive is paid in the form of a rebate at a later date.

The bill does not require the solar energy system to be used after installation or provide a minimum amount of kilowatt hours to be generated per month.

ECONOMIC IMPACT

Revenue Estimate

Based on the discussion below, the revenue loss from this bill is as follows:

Impact of SBXX17 For Taxable Years Beginning 1/1/2001 Assumed Enactment After 6/30/01 Fiscal Year Impact (In Millions)		
2001-2	2002-3	2003-4
-\$20	-\$35	-\$45

The tax credit estimates above interact with rebate programs and assume adequate funding of the latter.

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this proposal.

Revenue Discussion

The impact of this bill would depend upon the number of individuals and businesses incurring qualifying solar energy expenses and the average credit applied against tax liabilities.

Revised revenue losses above reflect an increase of \$13 million for 2001-02, \$26 million for 2002-03 and \$34 million for 2003-04 from the previous version of this bill as amended June 12, 2001. This increase is primarily attributable to (1) redefining a qualified solar energy system to include solar energy systems with generating capacity of less than 10 kilowatts; and (2) allowing taxpayers that receive a subsidy from a municipal, state, or federal sponsor to qualify for the credit for the unsubsidized portion of a qualified solar energy system. In addition to the above, the credit percentages were reduced from 50% and 25% to 15% and 7.5% for the respective years. The estimate also revised the number of qualifying systems based on more current available data. With the above exceptions, the previous analysis and assumptions for this bill still apply.

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FRANCHISE TAX BOARD'S
PROPOSED AMENDMENTS TO SB 17XX
As Amended August 20, 2001

AMENDMENT 1

On page 2, line 11, strikeout ", " and strikeout lines 12 to 14 inclusive, and insert:

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AMENDMENT 2

On page 2, line 23, strikeout ", as" and strikeout lines 24 to 26 inclusive, and insert:

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AMENDMENT 3

On page 4, line 23 strikeout ", as" and strikeout lines 24 to 26 inclusive and insert:

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AMENDMENT 4

On page 4, line 33 strikeout ", as" and strikeout lines 34 to 36 inclusive, and insert:

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